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The Effect of Community Related CSR on Performance of Manufacturing Firms in Kenya

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Abstract
Business units are nowadays considered as social units such that they are expected to be sensitive to multiple stakeholders. Although corporations are making a lot of money from their business operations, their contribution to the welfare of society where they are located or do business is limited. Pressure on the earth's resources is becoming increasingly severe owing to industrialization. Corporate Social Responsibility (CSR) has been used to mitigate the adverse effects of the externalities posed by organizations' operations on society. Community relations help to cement the loyalty of the public to the firm hence enhancing its competitive advantage and performance. This article sought to determine the effect of community relations on performance of manufacturing firms in Kenya. Descriptive survey research design was used in this study. The study population consisted of 854 manufacturing firms registered with Kenya Association of Manufacturers (KAM). The sample constituted of 202 firms selected by purposive sampling, where 112 respondents were responsive. Primary data was obtained by use of a self administered questionnaire and secondary data obtained from organizations' reports, newsletters, books, research articles and company websites. Pilot test constituted of 20 respondents, where the research instrument was tested for validity and reliability. Regression analysis was used to test the relationship between community relations and firm performance by use of SPSS, where data was presented in descriptive and inferential statistics. The findings of the study revealed that community relations had a positive and significant effect on performance of manufacturing firms in Kenya. The study recommends the promotion of community relations through health, education, donations, projects, recruitment, purchasing, sports and volunteer work to enhance firm reputation.
Keywords: Corporate Social Responsibility (CSR), Community Relations, Firm Performance, Manufacturing Firms, Competitive Advantage

1. Introduction

1.1 Background of the Study

Manufacturing sector plays a key role in socioeconomic transformation and development (AfDB, 2014). However, manufacturing leads to serious environmental impacts through depletion of natural resources and creation of pollution. Manufacturing firms are facing major challenges as environmental requirements entail radical changes in product design and production systems as increased competition from low cost countries creates a strong urge for more affordable products and enhanced performance (UNIDO, 2013). To enhance their reputation and to mitigate the risks emanating from the negative impacts of their operations, firms engage in CSR to constructively interact with various stakeholders (Fernando, 2013).

Corporate Social Responsibility (CSR) is a strategy employed by firms to enhance corporate image and reputation resulting in improved company's competitiveness (Carroll & Shabana, 2010; Ching, Yin, Pei, Zhi & Pei, 2015; Chung & Safdar, 2014; Galbreath, 2009; Newman, Rand, Tarp & Trifkovic, 2016; Togun & Nasieku, 2015). It involves management of multiple stakeholders and mitigation against the likelihood of negative regulatory, legislative or fiscal action (Freeman, Harrison, Wicks, Parmer & Colle, 2010). The relationship between business and society has witnessed a massive transformation from the traditional classical view of business performance as profit maximizing economic agent to a more ethical outlook that analyzes the greater impact of business on society (Safwat, 2015).

The manufacturing sector is the engine of economic growth and a catalyst for national development and accounts for 70% of global trade. This is realized through wealth and employment creation, contribution to the country's Gross Domestic Product (GDP) and poverty alleviation among the citizenry (Shen, Govindan & Shankar, 2015; Togun & Nasieku, 2015). This therefore raises global concern on the performance and impact of manufacturing firms since the pervasive growth of the manufacturing sector has resulted in depletion of natural resources and ubiquitous pollution, hence CSR used to mitigate such market imperfections (Crifo & Forget, 2015).

The increasing significance of CSR has prompted governments to promote socially and ecologically responsible corporate practices in their national public policies. Governments such as Canada and Denmark monitor firm performance through CSR and have national policies that make it mandatory for companies to include information on CSR in their annual financial reports. International benchmark bodies such as ISO 26000 (CSR standard), ISO 14001 (EMS), OECD guidelines, Global Reporting Initiative (GRI), AccountAbility1000, Social Accountability 8000 and UN Global Compact, entail tenets of responsible investment (Henriques, 2012;

Kalunda, 2012; Morara, 2013). India imposes compulsory CSR obligations that demand mandatory contribution to social activities listed by the government (Chung & Safdar, 2014). Brazil has a lively CSR scene under Instituto Ethos, a network of businesses committed to social responsibility (Morara, 2013). Developed countries, such as Britain, Germany, France, Belgium, Denmark, Australia and Canada, have working CSR legislations which champion responsible business practices (Ibrahim, 2014).

There is paradigm shift from the classical single bottom line to contemporary triple bottom line (TBL); people, planet and profit firm performance measures (Bagh, Khan, Azad, Saddique & Khan, 2017; Bremner, 2016). However, the problem with the TBL is that it is not easily and clearly measurable and therefore does not offer a clear test of business success or effective performance in the use of resources. Whereas measuring profits is straightforward, measuring environmental protection and social justice is not (Morara, 2013). The expanding reach of media coupled with advances in information technology, such as the internet, has enabled immediate and widespread exposure of corporate activities even in most remote areas, hence the dire need for responsible business practice (Yin, Rothlin, Li & Caccamo, 2013).

While acquiring technology to exploit the vast resources, developing countries encounter the risk of obsolete and harmful technologies and products, and environmental degradation due to weak regulations, frameworks, institutions, standards and indices (Ahen, 2015; Tilakasiri, 2012). Enforcement of CSR ensures that firms are accountable to stakeholders for harmonious coexistence which leads to improved firm performance and social reputation (Calabrese, Costa, Menichini, Rosati & Sanfelice, 2013).

The manufacturing sector in Kenya is core in the realization of the country's vision of becoming prosperous and globally competitive by 2030 (KIPPRA, 2013) and is the main conduit for the country's integration into regional and global markets (Kinyanjui, 2015). It contributes to 10% of GDP and 12.5% of exports (Kinyanjui, 2015). The Constitution of Kenya 2010, Chapter Five, Part 2, provides for "sustainable exploitation, utilization, management and conservation of the environment and natural resources" (GOK, 2010).

1.2 Research Objective

The study was guided by the following specific objective:

1) To determine the effect of community relations on performance of manufacturing firms in Kenya.

1.3 Research Hypothesis

H_0: Community relations have insignificant effect on performance of manufacturing firms in Kenya.
H_a: Community relations have significant effect on performance of manufacturing firms in Kenya.

2 Literature Review

2.1 Theoretical Review

This section examines the theoretical foundations of the study. Theories are analytical tools for understanding, explaining, and making predictions about a given subject matter. They form the base on which research is founded by providing prior expectations (Gujarati & Porter, 2010). This study was based on stakeholder theory and social contract theory.

2.1.1 Stakeholder Theory

Stakeholder theory, posited by Freeman (1984), suggests that firms have obligation to a wide and integrated set of stakeholders (Harrison & Wicks, 2013; Sweeney, 2009; Tilakasiri, 2012; Yin et al., 2013). Stakeholders are constituents who can affect or are affected by the organization's activities (Freeman, 1984; Sweeney, 2009). They contribute to the firm's wealth-creating capacity and are potential beneficiaries and risk bearers (Sweeney, 2009). Firms possess both explicit (legal) and implicit (self enforcing) contracts with various constituents (Freeman, 1984). The key stakeholders in the firm's activities include; employees, suppliers, customers, media, local communities, government, NGOs and environmental activists (Freeman et al., 2010). CSR is most comprehensively studied through stakeholder theory (Chen, 2015; Sweeney, 2009; Tilakasiri, 2012).

2.1.2 Social Contract Theory

Social contract theory posited by Curran (2005, cited in Sweeney, 2009) declares that society has "the mandate" or the "viability of business". This is referred to as "licence to operate" by Post et al. (2002, cited in Sweeney, 2009), the "iron law of responsibility" by Davis (1967, cited in Sweeney, 2009) and the "legitimacy theory" by Suchman (1995, cited in Hilson, 2014). Organizations exist and act by permission of society at large, hence obliged to be sensitive to various stakeholders. If organizations act in ways that are not consistent with society's expectations, they will eventually face externally imposed controls for their behavior. They are expected to preserve their image of a legitimate business with legitimate aims and methods (Sweeney, 2009).

Social contract is mutual trust and relationship between the organization and stakeholders, with a set of rules and assumptions about behavioural patterns (Weiss, 2008, cited in Sweeney, 2009). Stakeholder management is grounded in the concept of the social contract which focuses on the relationship between the business and stakeholders (Sweeney, 2009). Formal social contract defines a firm's explicit responsibilities, including generating returns for shareholders, obeying laws and regulations, creating jobs, paying taxes and honouring contracts. On the other hand, informal social contract reflects society's implicit expectations that are

not explicitly stipulated by the law such as adherence to global labour and environmental standards, triple bottom-line reporting, industry norms and codes of conduct, fulfilling brand promises and philanthropy to the community (Galbreath, 2009).

According to social contract theory, businesses must act in a responsible manner in line with society expectations as they pursue their commercial interests (Mwangi & Oyenje, 2013). Social contract theory defines relationships with shareholders, employees, creditors, suppliers, consumers, the government, the community and various stakeholders. Ensuring the quality of products, abiding to law and protecting the environment enable firms to establish a good corporate image and reputation, which creates and sustains competitive advantage. It recognizes that the firm has to seek favour from the society in which it operates (Fu & Shen, 2015).

2.1.3 Theoretical Reconciliation

Theories on CSR coalesce into two schools of thought; economic approach and social approach. The economic approach advances Friedman's capitalist theory that the business of business is business in that businesses must be prudently managed to maximize profits (Friedman, 1970, cited in Sweeney, 2009). Adoption of CSR constrains a firm in the competition for survival (Jensen, 2002, cited in Sweeney, 2009). The social approach advances Freeman's social theory that society gives the mandate in that it provides the factors of production and also conducive business environment required for business to thrive. It recognizes that businesses do not exist in a vacuum. It is therefore prudent for business to be strategically sensitive to its stakeholders as it pursues profitability ambitions for sustained competitive advantage (Freeman, 1984; Sweeney, 2009). This study adopted a combination of the economic and social approaches.

2.2 Empirical Review

2.2.1 Community Relations

In addition to the production of goods and services, society expects that organizations will provide benefits such as improved lifestyle, employment, infrastructure, and environmental conservation (Agarwal, 2008). CSR practices mainly target poverty alleviation, the protection of human rights and environmental protection (Tilakasiri, 2012). The key worth of CSR is the creation of shared value; benefit for society and for the business. The shared value strategic CSR creates a symbiotic relationship where the success of the company and that of the community become mutually reinforcing (Porter & Kramer, 2006).

Organizations that incorporate CSR activities into their strategies aim at improving the welfare of communities and conserving the environment. According to Yin et al. (2013), CSR practice involves commitment in community education, training, capacity building, collaboration, community engagement, philanthropic donations and sponsorship of sports activities. Millennium Development Goals (MDGs), now sustainable development goals (SDGs), aim at having a world with less poverty, hunger and disease, greater survival prospects for mothers and infants, better education, equal opportunities and a healthier environment (UN, 2015). The support of the education system increases future recruitment pool (Areba, 2013; McWilliams, Siegel & Wright, 2006; Porter & Kramer, 2006). Companies need healthy societies to succeed, and a healthy society needs successful companies for job creation, wealth, taxes, contributions and innovation which leads to improved standards of living. Organizations are therefore expected to respond to pandemics regardless of whether they are removed from their primary product lines and markets (Porter & Kramer, 2006).

CSR is defined as a company's effort in improving the well-being of the society through contribution of the company's resources and discretionary business practices (Ching et al., 2015). Carroll (1979, cited in Fadun, 2015) argued that CSR must embody economic, legal, ethical and discretionary perspectives. A firm's discretionary responsibilities entail voluntary social involvement and philanthropic contributions (Sweeney, 2009). Many firms take this common and easiest approach to CSR, the corporate philanthropy which involves financial donations and aid to community and social projects such as education, health and disaster relief efforts. To ensure accountability and focus in CSR, organizations introduce foundations to channel their philanthropic contributions (Paul, 2013).

Some firms choose to align their CSR focus with their core business and how to interface with the communities in which they operate and do business. These include business incubators, health, agriculture, and adapted offerings for vulnerable populations (Orange, 2013). Others pick areas of need in society from which the company will also benefit. This results in CSR involvement in areas such as education, health, environmental protection, infrastructure improvement, workplace HIV/AIDS programmes, water, sports, economic empowerment and other concerns (GIZ, 2013; Okello, 2013). These initiatives help to transform lives and communities, making a profound impact on global issues while growing the company business (Sagwe, 2013).

CSR is used to appease communities that would otherwise be hostile to corporate interests, whereby, firms support community interests so as to conduct their activities in harmony. CSR initiatives bond the firm to society in a social contract which gives it social license to operate (Fu & Shen, 2015; Hilson, 2014). Besides the regulatory approvals, the physically present firm requires a social license through support of community interests to gain the community's acceptance of the firm's activities (Mugun, 2013; Popa & Salanta, 2014).

Companies with active CSR activities reap increased visibility due to enhanced image of the company and

its products (Ratemo, 2015). According to Peterson (2013), it is not easy to measure how better off a company becomes by implementation of CSR. However, one needs to measure the impact of the projects on target communities. If a firm starts a project, it has to establish the beneficiaries, cost, expected revenues if any, management and sustainability logistics. According to Ratemo (2015), sustainability of CSR projects is achieved through empowering the recipients economically and through capacity building.

2.2.2 Firm Performance

Firm performance refers to tangible results that reflect the company's economic, social and environmental relation with stakeholders (Chen, 2015; Tilakasiri, 2012). According to Atikiya (2015), firm performance is classified into archival data and perceived performance. Archival data involves financial performance derived from the company repository, while perceived firm performance involves the use of perceptions about the company's performance. This study preferred perceived indicators to measure firm performance because the archival data was mainly considered confidential. In the current volatile market, financial based measures of firm performance are no longer sufficient, hence the use of both the financial and non financial measures. Non financial measures enhance a firm's competitiveness by providing additional information that indirectly reflects the strengths and weaknesses of business operations (Ahmad & Zabri, 2016; Ali, Mukulu, Kihoro & Nzulwa, 2016).

According to Lawrence and Weber (2011) and Pearce and Robinson (2011), the balanced scorecard and triple bottom line are the common firm performance measures that comprise both the financial and non financial measures. The balanced scorecard introduced by Kaplan and Norton is based on four perspectives comprising the financial, customer, internal business processes and employee learning and growth. The triple bottom line refers to reporting that includes financial, social and environmental results. This study adopted the use of financial and non financial measures.

2.3 Research Gaps

Many studies have focused on the relationship between CSR and financial firm performance (Fu & Shen, 2015; Mwangi & Oyenje, 2013; Talikasiri, 2009). However, contemporary studies have considered balanced firm performance or TBL, with financial and non financial measures, which provides broader and more comprehensive results (Ching et al., 2015; Cruz & Ramos, 2015; Dilling, 2011; Fadun, 2014; Galbreath, 2009; Hilson, 2014; Popa & Salanta, 2014; Saeidi, Sofian, Saeidi, Saeidi & Saaeidi, 2014; Safwat, 2015; Sweeney, 2009; Tizro, Khaksar & Siavooshi, 2015; Yin et al., 2013). This study sought to analyze firm performance in terms of financial and non financial measures to capture the emerging social and environmental concerns.

Different constructs have been used in CSR studies. Some studies have used Carroll's model; economic, legal, ethical and discretionary (Fadun, 2014; Galbreath, 2009; Tizro et al., 2015), while others have used stakeholders. However, Carroll's model fails to capture the multiple stakeholder concerns characterizing business operations. Consequently, contemporary studies have adopted multiple stakeholder constructs in CSR operationalization (Ching et al., 2015; Fu & Shen, 2015; Popa & Salanta, 2014; Safwat, 2015; Sweeney, 2009; Tilakasiri, 2012; Yin et al., 2013). This study operationalized CSR in community relations.

CSR studies have focused on various sectors of the economy. Ching et al. (2015) did a study on service firms in Malaysia. Galbreath (2009) did a study on manufacturing and service sectors in Australia. Fu and Shen (2015) did a study on food processing firms in China, while Tizro et al. (2015) did a study on cement industries in Iran. This research focuses on the manufacturing sector in Kenya. This emanates from its strategic economic importance in tandem with Kenya's Vision 2030 plan and its social and ecological impacts.

3. Research Methodology

3.1 Introduction

This chapter describes the research design, the population, the type of data to be collected, sampling frame, sample and sampling technique, data collection instrument, data collection procedure, pilot test, validity and reliability of the instrument, data analysis and presentation, and hypothesis testing techniques. Research methodology explains the research approach, design and associated methods of data collection and analysis. It outlines the steps involved in conducting the study, provides criteria for obtaining authentic results and provides the formula for replication studies (Ibrahim, 2014; Kothari, 2004; Mugenda & Mugenda, 2003).

3.2 Research Design

Research design is the plan and the procedures for research that entails the broad assumptions and detailed methods of data collection and analysis (Ibrahim, 2014; Saunders, Lewis & Thornhill, 2012). It is the conceptual structure within which research is conducted. It is the blueprint for collection, measurement and analysis of data (Kothari, 2004). It entails the methods of data collection, analysis and interpretations that translate the approach into practice (Ibrahim, 2014).

This study adopted descriptive survey research design, which is a fact finding enquiry that explains phenomena as they exist at that moment in time (Fadun, 2014; Ibrahim, 2014; Kothari, 2004; Mwangi & Oyenje, 2013). Survey involves asking structured questions to a representative cross section of the population at a single

point in time. The survey may be mailed to respondents, conducted over the phone, electronically or involve a face to face meeting with the respondent (Sweeney, 2009). Descriptive survey methodology was used as it is an inexpensive yet a quick way of collecting data from the target population. It is also an efficient and accurate method of accessing and assessing information about the target population (Ching et al., 2015; Fadun, 2014).

Cross sectional data was obtained from respondents by use of a questionnaire. Cross sectional data studies a phenomenon at a specific time and the data collected only once (Ching et al., 2015; Gujarati & Porter, 2010; Nzulwa, 2013). Secondary data was obtained from annual reports, newsletters, books, articles and company websites. Data consisted of both qualitative and quantitative data, where qualitative data was transformed into quantitative data for analysis. Quantitative approach facilitates examination and explanation of the relationship between variables and is easy to replicate (Fadun, 2014; Sasaka, Namusonge & Sakwa, 2014), hence was suitable for this study.

3.3 Target Population

The population is the universe of all items with common observable characteristics (Kothari, 2004; Mugenda & Mugenda, 2003). The study population was made up of all manufacturing firms registered with KAM. Data on KAM directory (2015) provided 853 registered members, stratified in 14 sectors as follows; 1) building, mining & construction, 2) chemical & allied, 3) energy, electrical & electronics, 4) food & beverages, 5) leather & footwear, 6) metal & allied, 7) motor vehicle & accessories, 8) paper & board, 9) pharmaceutical & medical equipment, 10) plastics & rubber, 11) fresh produce, 12) service and consultancy, 13) textile & apparels, and 14) timber, wood & furniture. It is also stratified into 8 geographical regions; 1) Athi River, 2) Central Kenya, 3) Coast, 4) Eldoret, 5) Nairobi & surrounding, 6) Naivasha, 7) Nakuru, and 8) Nyanza/Western.

Target population is the entire list of items on which the researcher wishes to generalize the study findings (Kothari, 2004; Mugenda & Mugenda, 2003). The target population was purposively and conveniently sampled to consist of 2 out of the 8 regional strata, Athi River and Nairobi, which constitute of 641 manufacturing firms in all stratified 14 sectors. The choice of this target population was based on the fact that majority (80%) of the firms registered with KAM are located in Nairobi and surrounding area (KAM, 2015) and that the region has a fair blend of all manufacturing sectors. Targeted respondents (units of observation) were the managers in charge of CSR.

3.4 Sampling Frame

Sampling frame is the entire list of all the items from which the sample is drawn and should be a good representative of the population (Kothari, 2004; Mugenda & Mugenda, 2003). The sampling frame for this study was the list of 427 manufacturing firms in the KAM directory (2015) in Athi River and Nairobi in 10 out of the stratified 14 sectors, purposively selected to capture the interest of the study based on their adoption of CSR strategy, processing and value addition operations and their economic, social and environmental impact. The selected sectors included; 1) building, mining & construction, 2) chemical & allied, 3) energy, electrical & electronics, 4) food & beverages, 5) leather & footwear, 6) metal & allied, 7) motor vehicle & accessories, 8) paper & board, 9) pharmaceutical & medical equipment, and 10) plastics & rubber.

3.5 Sample and Sampling Technique

A sample is a carefully selected subgroup that is representative of the population on which inference about the aggregate is made (Kothari, 2004). Sampling helps to reduce research costs and provides greater accuracy, flexibility and speed (Ching et al., 2015; Kothari, 2004). The sample size should be optimal to fulfill the requirements of efficiency, representativeness, reliability and flexibility. The sample size is determined from considerations such as nature and size of population, sample size of similar studies, published tables, equations and software calculations (Israel, 2009).

For regression analysis, a sizeable sample is required, about 200 – 500 (Israel, 2009). Large samples guarantee stable estimators (Sweeney, 2009). From published tables (Israel, 2009), a sample from a target population of 427 at 5% level of significance requires a sample size of 205. Sweeney (2009) recommends a sample size of 100 – 200. Using formula (Kothari, 2004), a sample size of 202 respondents was obtained and used for the study. The sample of the study was selected using purposive sampling method. Purposive (judgemental) sampling is a non probability technique used to pick items with the required characteristics (Kothari, 2004). From the sampling frame of 427 firms, a sample size of 202 firms was purposively selected in corroboration with the studies by Hilson (2014), Ibrahim (2014) and Yin et al. (2013).

3.6 Data Collection Instrument

The type of data collection method depends on the nature of the study. The most common methods used include questionnaire, interview schedule, observation checklist and focus groups. Self administered questionnaire is the most common data collection method for primary data and is ideal for big enquiries (Kothari, 2004).The questionnaire consists of a set of structured questions which are delivered to respondents to fill and return. This technique is less costly and less time consuming since the questionnaires can be easily distributed to a large number of dispersed respondents, is free from interviewer bias, can reach difficult respondents and is ideal for quantitative survey. However, it is subject to low response rate, interpretation ambiguity, respondent bias and

insincerity, and delay in response (Kothari, 2004).

This study adopted the use of a self administered questionnaire. A five point likert scale was used in most of the survey questions to obtain respondents' perception about the construct alongside few open and close ended questions. Likert scale is an ordinal scale that gauges perception on the extent of an attribute (Kothari, 2004) and was used to gauge from very high, high, moderate, low, to very low.

3.7 Data Collection Procedure

The researcher made prior contacts, through email and telephone, to all firms selected for the study to seek prior authority and consent from the respondents to participate in the study. This correspondence introduced the researcher and explained the nature, purpose and significance of the study with a promise to uphold ethics and to share the key findings. The self administered questionnaire was emailed and delivered to the respondents who would fill and send back by email and through drop and pick. Secondary data was obtained from company websites and records to complement the survey primary data. Key findings of the study were shared with the participant respondents upon successful conclusion of the study.

3.8 Pilot Test

A pilot test is a small scale replica of the actual survey and it is carried out before the actual survey is undertaken. Test pilot of the questionnaire is done on respondents who are as similar as possible to those in the main enquiry. The size of the pilot study is often dependent on the time and financial resources available for the study and for most studies there should be a minimum of ten (10) respondents (Saunders et al., 2012). The pilot is used to test the efficiency and adequacy of the questionnaire (Sweeney, 2009). Mugenda and Mugenda (2003) provides for 1 to 10% of the sample size, hence, based on 10% of the sample size, twenty (20) pilot cases were considered in this study. This guided in making corrections and modifications to the questionnaire to make it most suitable for the study by removing any form of ambiguity and making the questions clear, precise and straightforward.

3.8.1 Validity of the Research Instrument

Validity refers to the extent to which an empirical measure adequately reflects the concept under consideration (Babbie, 2010). It refers to how accurately the data obtained in the study represents the study variables (Mugenda & Mugenda, 2003).This refers to the sharpness of the research instrument. There are three types of validity; content (face) validity, construct validity and criterion related validity. The study utilized content and construct validities. Content (face) validity is the extent to which a measuring instrument provides adequate coverage of the topic under study. Its measure is primarily judgemental based on how much the instrument represents the concept under study (Kothari, 2004). Content validity was tested and achieved through expert input, and also through adoption of questionnaire used in prior studies including Chen (2015), Ching et al. (2015), Sweeney (2009) and Tilakasiri (2012). Construct validity is a measure of the degree to which an instrument results conform to predicted correlations and other theoretical propositions (Kothari, 2004). This was realized by anchoring the study to theoretical expectations.

3.8.2 Reliability of the Research Instrument

Reliability test is used to obtain stability and consistency of measurement where replication obtains same results over different circumstances if same method is used (Ching et al., 2015). It is a measure of the degree to which a research instrument yields consistent results for repeated trials (Kothari, 2004; Mugenda & Mugenda, 2003). Survey items are reliable and consistent if the Cronbach's alpha value is more than 0.70 (Ching et al., 2015). Reliability test was conducted by use of Cronbach's alpha.

3.9 Data Analysis

3.9.1 Descriptive Analysis

Descriptive statistics show the summary of variable measurements presented in terms of central tendency, variability, frequency distribution (dispersion) and symmetry (normality). Central tendency measures include the mode, mean and median. Variability is expressed in terms of range, variance and standard deviation, while frequency distribution is expressed in terms of tables, graphs, bar charts and percentages, and symmetry is denoted by skewness and kurtosis (Kothari, 2004; Mugenda & Mugenda, 2003).

3.9.2 Inferential Analysis

Inferential statistics draw inference about population based on sample results by either parametric or non parametric techniques. They generalize the results from sample to population. Inferential statistics are classified into parametric (distribution) and non parametric (distribution free) techniques. Parametric techniques make assumptions about the population data, such as normality, large sample size, and population parameters such as mean and variance, as opposed to non parametric techniques. Parametric tests include correlation, regression, t, z, and F tests. Non parametric tests include sign, Wilcoxon, Mann Whitney (U), Kruskal-Wallis (H) and Chi square tests (Kothari, 2004).

Classical linear regression (CLR) analysis was used to determine the relationship between community relations and firm performance. From SPSS regression output, various parametric statistics were analyzed. The coefficient of correlation (r^2) and F statistic were used to test the strength of the relationship between the independent variable and the dependent variable at 5% level of significance. The t – test was used to test the

strength/significance of the independent/predictor variable. If the p-value is less than 0.05, the relationship between IV and DV is significant and vice versa (Gujarati & Porter, 2010). The model coefficient (estimator) was used to assess the magnitude, direction and significance of the relationship.

3.9.3 Measurement of Variables

The independent variable in this study is CSR operationalized through community relations with other factors held constant. Community relations included; health and education, CSR projects and charity, and local community welfare activities. Prior expectation was that community relations enhanced firm performance.

The dependent variable is firm performance which was operationalized through sustainable balanced score card also called the triple bottom line (economic, social and environmental measures) which takes into effect financial and non financial measures. The DV constructs include; perceived financial measures, customer satisfaction, internal process, and employee development. Perceived financial measure gauged the relative profitability and market share since explicit measures based on revenue would be considered confidential. Customer satisfaction tested the customer satisfaction index, internal processes tested plant efficiency, and employee development tested employee job satisfaction index.

3.9.4 Statistical Model

Regression analysis using SPSS was used to test the relationship between community related CSR (independent variable) and firm performance (dependent variable). The relationship was explained by the following regression model;

i) $Y = B_0 + B_1X_1 + e$

Where: Y- Firm performance (Financial and non financial measures), B_0 - Constant, and B_1 – Community relations coefficient. e – Error term stands for all other factors that are not considered in the study but have influence on the response (Gujarati & Porter, 2010). X is the community relations variable.

3.9.5 Hypothesis Testing

Hypothesis is a formal question that the researcher intends to resolve. It is a proposition set forth as an explanation for the occurrence of some specific phenomena asserted as a provisional conjecture to guide investigation and accepted as highly probable in the light of established facts (Kothari, 2004). This research sought to test the hypothesis based on the objective of the study. Hypothesis test offers support to the sample for generalization to be made (Fadun, 2014; Sasaka et al., 2014; Sweeney, 2009).

From the regression results, the t value and the corresponding p value were used to test the statistical significance of the independent variable, based on 5% level of significance (95% confidence level; $\alpha = 0.05$). When the p value is less than the level of significance, the null hypothesis (H_0 - that the variable has no effect) is rejected and if equal or greater, do not reject H_0. This is symbolically denoted as: $p < \alpha$ (level of significance): Reject H_0, and if $p \geq \alpha$: Do not reject H_0. Once the decision to reject or not reject null hypothesis was made, inference was drawn on the relationship and statistical significance.

4. Research Findings and Discussion

4.1 Response Rate

Response rate is the total number of responses divided by the total number in the sample. Response rate depends on the data collection method and the nature of respondents. For most academic studies involving top management, a response rate of approximately 35 per cent is reasonable (Saunders et al., 2012). The researcher conducted a pilot test to validate the research instrument with 20 manufacturing firms selected randomly from the sample population. This resulted in response from 10 respondents hence response rate of 50%. The questionnaire was amended to make it more resourceful and responsive. The target sample for the study was 202 managers. From the survey, only 112 respondents were responsive, hence a response rate of 55%, which was considered appropriate for the study.

4.2 Pilot Test

4.2.1 Reliability Analysis

Reliability is a measure of the degree to which a research instrument yields consistent results for repeated trials (Kothari, 2004; Mugenda & Mugenda, 2003). Survey items are reliable and consistent if the Cronbach's alpha value is more than 0.70 (Ching et al., 2015). Cronbach's alpha was used to test the internal reliability of the research instrument. As shown in Table 4.1, all the constructs were significant with alpha values (0.927 and 0.835) above the 0.7 threshold.

Table 4.1: Reliability Coefficients of the Study Variables

Variable	Number of Items	Cronbach's Alpha	Comments
Community Relations	8	0.927	Accepted
Firm Performance	14	0.835	Accepted

4.2.2 Validity of the Research Instrument

Validity refers to the extent to which an empirical measure adequately reflects the concept under consideration (Babbie, 2010). It refers to how accurately the data obtained in the study represents the study variables

(Mugenda & Mugenda, 2003). It is the extent to which data collection methods accurately measure what they were intended to measure (Saunders et al., 2012). This refers to the sharpness of the research instrument.

Content (face) validity is the extent to which a measuring instrument provides adequate coverage of the topic under study. Its measure is primarily judgemental based on how much the instrument represents the concept under study (Kothari, 2004). Content validity was tested and achieved through expert input, and also through adoption of questionnaires used in prior studies including Chen (2015), Ching et al. (2015), Sweeney (2009) and Tilakasiri (2012). Construct validity is a measure of the degree to which an instrument results conform to predicted correlations and other theoretical propositions (Kothari, 2004). This was ensured by anchoring the study to theoretical expectations based on underlying theories and empirical review.

The researcher received 10 responses for the pilot study which helped to validate the research instrument. In the course of the pilot study, ambiguous issues were addressed to maintain the original intention of the research instrument. This involved wide consultations with the respondents, supervisors and experts for guidance.

4.3 Normality Test

As revealed by the results of normality test in Table 4.2, the skewness of the variables was -0.563 and 0.238 while the kurtosis was -0.282 and -0.633. According to Saunders et al. (2012) and Ching et al. (2015), the skewness for normally distributed data ranges between -1 and 1 and kurtosis ranges between -2 and 2, hence the data was found to be normally distributed. Therefore the data was considered as parametric.

Table 4.2: Normality Test

Variable	Skewness	Kurtosis	Comments
Community Relations	-0.563	-0.282	Accepted
Performance	0.238	-0.633	Accepted

4.4 Inferential Analysis

From the model summary in Table 4.3, the coefficient of correlation, $r^2 = 0.417$, which denotes that other factors held constant, 41.7% of the variation in firm performance is explained by community relations. This correlation is fairly weak at 0.417, which means that there are other factors to consider for the model to be adequate.

Table 4.3: Community Relations Simple Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.646[a]	.417	.411	5.84912

a. Predictors: (Constant), X_1

From the ANOVA summary in Table 4.4, the F statistic is 78.600. Because the corresponding p-value = 0.000, ($p < 0.05$ for 5% level of significance) the null hypothesis, H_0 is rejected and inference drawn that statistically the explanatory variable, community relations has significant effect on firm performance.

Table 4.4: Community Relations Simple Regression ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2689.079	1	2689.079	78.600	.000[b]
	Residual	3763.341	110	34.212		
	Total	6452.420	111			

a. Dependent Variable: Y

b. Predictors: (Constant), X_1

From the regression coefficients in Table 4.5, $B_0 = 34.361$ and $B_1 = 0.511$, therefore;

$\hat{Y} = 34.361 + 0.511X_1$: Estimate of the econometric model.

If community relations index increase by 1 unit, other factors held constant, firm performance is expected to increase on average by 0.511 units. The coefficient for community relations is statistically significant since the p-value = 0.000, at 5% level of significance.

Table 4.5: Community Relations Simple Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	34.361	1.545		22.241	.001	31.299	37.423
	X_1	.511	.058	.646	8.866	.000	.397	0.625

a. Dependent Variable: Y

4.5 Descriptive Analysis

4.5.1 Community Relations

Prior studies have shown that community relations significantly affect firm performance (Ching et al., 2015; Newman et al., 2016; Sweeney, 2009; Tilakasiri, 2012). The present study considered the aspects of community relations to include: Health, education, donations, projects, recruitment, purchasing, sports and volunteer work. The study found that firms exercise highly for donations (4.71), moderately for health (2.73), education (2.63), and volunteer work (2.53), low for recruitment (2.14), projects (2.02), and sports (1.92), and very low for

purchasing from the community (1.45).

The study established that majority of the firms use the easiest option of corporate philanthropy by offering donations (48.2 %). Other firms (42 %) combine various community based CSR activities including donations, health and sports. This corroborates with the findings of the study by Paul (2013) which contends that many firms take this common and easiest approach to CSR, the corporate philanthropy which involves financial donations and aid to community and social projects such as education, health and disaster relief efforts, hence organizations introduce foundations to channel their philanthropic contributions.

4.5.2 Firm Performance

Several parameters were used to measure firm performance in this study averaged for the last five years. Based on the mean, the study findings showed that majority of the firms had high level of profitability (3.68), medium level of expenditure on CSR (2.61), medium level of market share (3.28), high level of customer satisfaction (3.54), very low levels of pollution (1.10), highly used the latest manufacturing technology (4.17), highly innovative and creative (3.93), medium level of employee satisfaction (3.37), and medium level of staff training expenditure (3.01). Majority of the firms reported medium level of positive impact from their engagement in CSR activities. Many of the firms in this study recorded a medium market share (3.30) of 41 to 60%, high plant efficiency (3.60) of 61 to 80%, high customer satisfaction (3.61) of 61 to 80% and medium level of employee satisfaction (3.42) of 41 to 60%.

On overall, majority of the firms that had involvement in CSR activities showed enhanced firm performance. This supports the findings by Carrol and Shabana (2010), Chen (2015), Ching et al. (2015), Chung and Safdar (2014), Harrison and Wicks (2013), Newman et al. (2016), Safwat (2015), Tilakasiri (2012), and Togun and Nasieku (2015) who contend that involvement in CSR activities enables firms to be more competitive which significantly and positively correlates with firm performance.

4.6 Hypothesis Testing

The study predicted a positive relationship between community relations and firm performance. Inferential statistics were used to test the relationship at 5% level of significance. The significance of the relationship was based on the p value such that the null hypothesis was rejected in support of the alternative hypothesis whenever the p value was less than 0.05, and the converse applies.

H_0: Community relations have insignificant effect on performance of manufacturing firms in Kenya.

This research found a positive relationship between community relations and firm performance with a standardized coefficient of 0.511. This meant that a unit increase in community relations index led to an increase in manufacturing firm performance index by 0.511. The relationship is also significant with p value = 0.000 (since $p<0.05$), hence the null hypothesis was rejected in support of the alternative hypothesis. This study concluded that community relations, other factors held constant, have significant effect on performance of manufacturing firms in Kenya.

The results corroborated with previous studies which showed positive and significant influence of community relations on firm performance (Bagh et al., 2017; Fu & Shen, 2015; Hilson, 2014; Sweeney, 2009; Tilakasiri, 2012). Community-related CSR activities such as donations, health, education and sports build trust and confidence and mitigate risks (Yin et al., 2012). Community relations in this research included health, education, donations, sports and volunteer work.

The findings of this study are consistent with the stakeholder and social contract theories. It recognized community as a key stakeholder for the firm with which it has to establish good relations to enable it carry out its operations smoothly. This provides a social license for the firm in line with the findings of the studies by Fu and Shen (2015), Hilson (2014), Mugun (2013), and Popa and Salanta (2014).

5. Summary, Conclusion and Recommendations

5.1 Summary

This research found a positive relationship between community relations and firm performance. This meant that an increase in community relations index led to an increase in manufacturing firm performance. This study found that the firm has to establish good relations with the community to enable it carry out its operations smoothly by providing a social license, in line with stakeholder and social contract theories.

5.2 Conclusion

Community relations impact firm performance through support of community health, education, donations, projects and sports. The findings indicated that the performance of manufacturing firms increased with increase in community relations. This creates competitive advantage for the firm through enhanced firm reputation. Community relations provide social license for the firm to enable it to carry out its operations smoothly, build trust and confidence and mitigate risks associated with its operations and products in line with the stakeholder and social contract theories.

5.3 Recommendations

This study recommends that firms embrace community based CSR initiatives to promote harmony with the local

society. Such socially responsible acts should service the local community in areas of environmental protection, participation in local poverty alleviation programmes, education and health programmes. CSR activities could be used to bond and create peace with the communities where manufacturing firms source their inputs and also could be used to develop the market for the company products.

5.4 Areas for Further Research

Further studies can consider the unit of observation to consist of community respondents. This would ensure first hand accurate data from the stakeholder perspective since the perception of the managers tend to portray only the positive image of the organization. Since the environment is adversely affected by rapid industrialization, whereby natural resources are being depleted and polluted above sustainable rates, further research can also focus on the impact of business on society.

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